

# **California and Re-regulated Model**

**Joint Working Group Forum  
Post-2006 Initiative  
Illinois Commerce Commission  
June 23, 2004**

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# CNE California at a Glance

- Serving C&I customers since market opened on April 1, 1998
- Over 100 customers being served
- Over 2,500 accounts being served
- Over 800 MW of peak load
- 12 employees
- Diverse commercial and industrial customers served: grocery stores; big-box retail; restaurants; fast-food chains; hospitals; colleges; hotels and resorts; hi-tech; aerospace; telecom; cement and steel manufacturing; office buildings; sports facility; and government.

# CA Market – Pre Crisis

- AB 1890 – CA's electrical restructuring law passed by Legislature in 1996
- April 1, 1998 – Retail market opens with flawed market structure
  - Utilities forced to divest all fossil fuel generation assets
  - Over reliance on spot markets – California Power Exchange
  - Utilities prevented from long-term contracting
  - Bundled retail rates frozen
  - Utilities unable to recover full energy costs in rates
  - PX Credit vs. Bottoms Up Billing

# CA Market – Crisis Years

- June 2000 – Energy Crisis begins with first rolling blackouts
- Increasing wholesale prices cause utilities to hemorrhage cash since hamstrung by rate freeze
- Utilities failure to pay PX Credits force C&I DA customers to return to bundled service
- Utilities' credit ratings downgraded to junk-bond status by January 2001.
- January 2001 – then Governor Davis signed SB 6X and AB 1X authorizing CA Dept. of Water Resources to procure power on behalf of cash-strapped utilities; direct access suspended
- Late-Jan. 2001, CDWR begins purchasing power for CA's customers
- C&I customers execute direct access contracts to forego CDWR's high cost, long-term power
- By March 2001, CDWR negotiated 40 long-term contracts with IPPs spanning next 3-10 years.

# CA Market – Crisis Years

- April 6, 2001 – PG&E files for bankruptcy
- May 2001 – CPUC approves 3 cents/kWh surcharge to pay for DWR power; residential usage below 130% of baseline exempted
- September 2001 – CPUC adopts decision suspending direct access as of Sept. 20, 2001
- “Exit Fees” or “Direct Access Cost Responsibility Surcharge” adopted in subsequent CPUC decision
  - Bond Charge
  - CDWR Power Charge
  - CTC
  - CDWR Undercollection
- CPUC sets initial DA CRS cap at 2.7 cents/kWh
- CPUC policy decision to maintain economic viability of DA



# CA Market – Post Crisis Years

- May 2003 – CPUC, CEC and CPA approves first-of-its-kind Energy Action Plan for California
  - To ensure that adequate, reliable, and reasonably priced electrical power and natural gas supplies are provided for California's consumers and taxpayers.
- December 2003 – CPUC approves SCE's Mountainview generation project
- January 2004 – CPUC adopts long-term procurement framework for states' utilities
- April 2004 – PG&E emerges from Chapter 11 bankruptcy
- April 2004 – CPUC holds en banc hearing regarding potential for a Core/Noncore retail electric market structure
- April 2004 – Governor Arnold Schwarzenegger urges CPUC to rapidly implement reforms to CA's electricity market including implementation of a Core/Noncore market

# Core/Noncore Market Model

- Core/Noncore Principles
  - Bright line separation between core and noncore (200 kW)
  - Aggregation allowed with minimum 1 MW load per utility service territory and one-year advance notice
  - Competitively bid default service option for noncore
  - 5-year transition period (2006-2010)
  - No new stranded costs and exit fees
  - Grandfather existing DA customers
  - All LSEs responsible for resource adequacy requirements

# Core/Noncore Market Model – Implementation

- Legislation required to lift current DA suspension
- AB 2006 (Nunez) – Provides unworkable core/noncore structure
  - Approved by Assembly
  - Author generally supports Core/Noncore Principles
  - Author to provide amendments prior to Senate hearing
  - CNE Position is “Oppose Unless Amended”
  - CNE garnered broad stakeholder support for Principles